

MARKET CONDUCT EXAMINATION
OF
THE GROUP HEALTH / KAISER PERMANENTE
COMMUNITY FOUNDATION

1730 MINOR AVENUE, SUITE 1500
SEATTLE, WA 98101-1404

January 1, 2000 – September 30, 2002



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November 22, 2002

The Honorable Mike Kreidler
Washington State Insurance Commissioner
Insurance Building 5000
P.O. Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.38.010(8) and RCW 48.03.010, and procedures promulgated by the National Association of Insurance Commissioners and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed of:

The Group Health / Kaiser Permanente Community Foundation
1730 Minor Avenue, Suite 1500
Seattle, WA 98101-1404

In this report, The Group Health/Kaiser Permanente Community Foundation is referred to as “the Company” or “the Foundation”.

This report of examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. George J. Lazur, AIE, CPCU of the Washington State Office of Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of The Group Health / Kaiser Permanente Community Foundation during the course of this market conduct examination.

I certify that the following is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applicable test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Scope

Time Frame

The examination covered the company's operations from January 1, 2000 through September 30, 2002. This was the first market conduct examination of The Group Health / Kaiser Permanente Community Foundation and was performed in the OIC's Seattle office and on-site at the Company's offices in Seattle, Washington.

Matters Examined

The examination included a review of the following areas:

Advertising	Policy Forms
Underwriting	Claims

Methodology

Our methodology for this exam was to review all records available in a category because the population was small.

COMPANY OPERATIONS AND MANAGEMENT

Management

The Foundation of Group Health Cooperative was incorporated in the State of Washington on May 31 1984 as a non-profit organization. Certificate of Exemption #34 was issued to the Foundation allowing it to issue charitable gift annuities on September 30, 1991.

The Foundation filed a change of name to the Secretary of State as The Group Health/Kaiser Community Foundation on September 29, 1997. On February 2, 1998 the name was corrected to The Group Health/Kaiser Permanente Community Foundation to reflect the correct name for Kaiser. An amended Certificate of Exemption was issued on June 4, 1998. There were no annuities issued between September 29, 1997 and February 2, 1998.

The Company did not issue any charitable gift annuities prior to being issued a Certificate of Exemption. The first annuity contract was issued on May 29, 1992. The Company's Certificate of Exemption has never been suspended, revoked, or cancelled.

The Foundation is governed by a 24 member Board of Directors. The board members for 2002 are:

Stephen Blanford	Jerry Campbell
Mary Durham	Sharon Fairchild
Carver Gayton	Barbara Gottas
Cynthia Hoppner	Dorothy Mann
David O'Brien	Carolyn Purnell
Robert Radford	Laura Rehrmann, President and CEO
Simeon Rubenstein	Jill Ryan
Cheryl Scott	Chang Mook Sohn
Andy Stergachis	Hugh Straley
Atsuko Tamura	Greg Tracy
Larry Vidrine	Bob Watt, Chairman
Jennifer West	Nancy Woods

The Board of Directors meets on a quarterly basis. The latest meeting was held on September 23, 2002.

Territory of Operations

The Group Health / Kaiser Permanente Community Foundation operates solely in the State of Washington.

Findings

The Company passed the following Operations/Management Standards without comment:

Standard	Reference
<u>Company Operations and Management Standard #1:</u> The Company holds a certificate of exemption issued by the Office of the Insurance Commissioner.	RCW 48.38.010
<u>Company Operations and Management Standard #2:</u> The Company did not issue any annuities prior to the issuance of its certificate of exemption.	RCW 48.05.030
<u>Company Operations and Management Standard #3:</u> The Company did not issue any annuities while its certificate of exemption was suspended, revoked, or cancelled.	RCW 48.38.050

GENERAL EXAMINATION FINDINGS

In reviewing Company records, the examiner determined that the Company deals with the public in good faith. Additionally, the Company provided the examiner with the requested information within the response time given for the various requests.

The information requested was available and in reasonable form.

There was no reason to believe that the company discouraged contact with the OIC at any level.

Findings

The Company passed the following General Examination Standards without comment:

Standard	Reference
<u>General Examination Standard #1:</u> The Company does business in good faith, and practices honesty and equity in all transactions.	RCW 48.01.030
<u>General Examination Standard #2:</u> The Company allows the examiners access to all records, documents and files, and facilitates the examination process.	RCW 48.03.030(1)
<u>General Examination Standard #3:</u> The Company may not discourage insureds from contacting the OIC and may not discriminate against those insureds that do contact the OIC.	WAC 284-30-572(2)
<u>General Examination Standard #4:</u> The Company must respond to any inquiry from the OIC within 15 business days, and the response must be in writing, unless otherwise indicated in the inquiry	WAC 284-30-650

ADVERTISING

The Company does a limited amount of advertising of the Charitable Gift Annuity product (CGA). The advertising materials consist of several printed items and information on the company's website.

There are five items in the advertising file. All advertising items were reviewed. The examiners found no violations.

The advertising materials reviewed consisted of the following:

- Three of the items are in a package that is periodically sent to current donors. This package consists of a cover letter, an AARP article with general information about charitable gift annuities and a short information form designed by the Foundation. In 2002 there were three mailings: one mailing was sent to donors over age 70 that have made numerous donations; another went to Group Health physicians and other staff members; the third was sent to Group Health members over age 70.
- There is a brochure available in the Company offices regarding different mediums for donations. This includes a description of charitable gift annuities.
- The Company's website includes a page titled "How to Give". This page includes a short paragraph describing charitable gift annuities.

Findings

The Company passed the following Advertising Standards without comment:

Standard	Reference
<u>Advertising Standard #1:</u> The Company does not use any false, deceptive or misleading representations or advertising in the conduct of their business.	RCW 48.30.040
<u>Advertising Standard #2:</u> Advertising material must show the full name and domicile of the Company.	RCW 48.30.050
<u>Advertising Standard #3:</u> Advertising materials do not include any misrepresentations of terms of the contract.	RCW 48.30.090
<u>Advertising Standard #4:</u> The Company does not use any illegal inducements to effectuate the sales of contracts.	RCW 48.30.150

POLICY FORMS FILING

There are eight contract forms written by the Company. The examiners reviewed the Company filing records and those of the OIC. All of the forms were filed with and approved by the OIC prior to use.

All of the contract forms contained the required descriptive information.

Findings

The Company met the following Policy Form Filing Standards without comment:

Standard	Reference
<u>Policy Form Filing Standard #1:</u> All policy forms must be filed with and approved by the OIC prior to use.	RCW 48.38.010(9)
<u>Policy Form Filing Standard #2:</u> All policy forms contain the descriptive information as required by statute.	RCW 48.38.030

UNDERWRITING AND GENERAL OPERATIONS REVIEW

The Group Health / Kaiser Permanente Community Foundation offers four different type of annuity contracts:

- Gift Annuity Agreement, One Life
- Gift Annuity Agreement, One Life, Jointly Owned / Community Property
- Gift Annuity Agreement, Two Life Joint
- Gift Annuity Agreement, Two Life Joint & Survivor, Jointly Owned / Community Property

The Company had 20 Charitable Gift Annuity contracts in force at the time of the examination. Because of the small population, all were reviewed to determine compliance with Underwriting and General Operations Standards.

The examiner found that the contracts issued contained the provisions applied for by the annuitant, that signatures were in place and that the correct contract form was used.

Charitable Gift Annuity contracts specify that periodic payments be made to the annuitant in a specified amount. These are done on annual, semi-annual, quarterly, or monthly basis. All of the payments were made on the correct dates for the correct amounts under the contract terms.

Findings

The Company met the following Underwriting and General Operation Standards without comment:

Standards	Reference
<u>Underwriting and General Operation Standard #1:</u> The Company may not use any policy form that has not been filed with and approved by the OIC.	RCW 48.18.110(1)
<u>Underwriting and General Operation Standard #2:</u> No insurer or agent may offer a rebate to the insured as inducement to purchase the policy.	RCW 48.30.140(1)
<u>Underwriting and General Operation Standard #3:</u> The Company may not use any illegal inducements to effectuate the sales of policies.	RCW 48.30.150
<u>Underwriting and General Operation Standard #4:</u> No person shall use any misrepresentations or misleading comparisons to induce any insured to lapse, terminate, forfeit, surrender, retain or convert a policy.	RCW 48.30.180
<u>Underwriting and General Operation Standard #5:</u> The insurer does not engage in any form of illegal dealing in premium.	RCW 48.30.190
<u>Underwriting and General Operation Standard #6:</u> No policy is refused issue, cancelled, or non-renewed on the basis of unfair discrimination.	RCW 48.30.300(1)
<u>Underwriting and General Operation Standard #7:</u> Contracts are	RCW 48.38.010(3)

Standards	Reference
only issued for the benefit of the charitable institution.	
<u>Underwriting and General Operation Standard #8:</u> A receipt must be given to the insured by the agent for any money collected with the application.	WAC 284-30-550
<u>Underwriting and General Operation Standard #9:</u> The Company must send a declination notice to the insured and the agent with the reason for the denial of coverage.	WAC 284-30-570
<u>Underwriting and General Operation Standard #10:</u> The Company must make an independent evaluation to support any cancellation, denial, or non-renewal.	WAC 284-30-574
<u>Underwriting and General Operation Standard #11:</u> The Company takes steps to ensure that the policy is delivered to the annuitant.	WAC 284-30-580(4)

CLAIMS

The Company has processed three (3) death claims. The annuity contracts specify that the last payment prior to the annuitant's death ends the Foundation's obligation to make periodic payments. The residual funds from the annuity revert to the Foundation at the death of the annuitant.

All three (3) death claim files were reviewed. We reviewed the death certificates and the Company accounting records showing the transfer of funds.

There are several ways in which the Foundation is notified of an annuitant's death.

- Notification from a family member or executor of the estate.
- Periodic checks of the Group Health member data base which will show a member as deceased.
- Receipt of a memorial gift in the annuitant's name.

When notification is received by any means, the Foundation contacts the appropriate government agency to obtain a death certificate. At the same time, a letter of condolence/thank you is sent to the family survivor or the executor / administrator of the estate. Paperwork is processed to move the remaining annuity funds to the Foundation. All documents are filed in the annuity contract file.

All of the contract files were complete and all records were accurate.

Findings

The Company passed the following Claims Standards without comment:

Standard	Reference
<u>Claims Standard #1:</u> The Company shall pay fairly and without deception as defined by the unfair claims settlement practices act.	WAC 284-30-330, (1),(2),(3),(4),(5),(9)
<u>Claims Standard #2:</u> The Company shall maintain complete claim files with all notes and papers in such detail that the claims history can be reconstructed.	WAC 284-30-340
<u>Claims Standard #3:</u>	